September 27, 2013

Comments from Germany on CTF Dedicated Private Sector Programs - draft document for comment

Dear Patricia,

thank you very much for the opportunity to comment on this draft.

Pls find attached some thought, questions and suggestions.

Kind regards,
Annette

Dr. Annette Windmeisser
Division for Climate Policy and Climate Financing
deputy head of division
Federal Ministry for Economic Cooperation and Development

CTF Proposal for Dedicated Private Sector Programs (DPSP)
German comments, 26th September 2013

General Comments and Questions

We appreciate the efforts made in elaborating the DPSP proposal in further detail and in presenting 4 distinct sub-programs for further consideration.

We especially welcome that governance and ownership issues which were discussed during the last TCF meeting have been addressed in the revised paper.

In general terms, GER continues to be supportive to the establishment of private sector programs under the CTF. As we noted that the proposed programs involve a very broad variety of sometimes complex and risky financial instruments, we would like to reiterate the importance of applying certain basic principles to the potential implementation of any of the sub-programs under the DPSP:

- A long term investment perspective should be adopted with a view to ensure sustainability and avoid crowding out/market distortions;

- To ensure the effective supervision and control of CTF portfolio risk, all DPSP sub-programs should feed into the consolidated financial risk management system of the CTF (yet to be established);

- In the absence of a well defined ERM framework financial products shouldn't be too complex in nature in order to keep the financial risk involved manageable.

- Investments in broader programs should be managed by a professional fund manager against recognized benchmarks for asset classes and overall investment returns managed across the portfolio;

- All DPSP sub-programs should be closely monitored and reported upon on at least a semi-annual and preferably on a quarterly basis;

- All DPSP investments should be fully in line with CTF investment criteria, all sub-programs and projects should be evaluated and monitored accordingly.

Given the funds currently allocated for the DPSP (USD 150 million), we would appreciate to have the four proposals prioritized for the selection of maximum 3 proposals, which could then be further developed. Our preference (as can be deducted from the specific comments below) is with program 1 and 3, followed with some caution by program 2.

We would also like to point out - already at this early commenting stage - that we understand any sort of endorsement of the proposal to be limited to phase 1 (existing resources in existing pilot countries). Expansion of activities in subsequent phases in our understanding requires approval by the TFC.

Specific Comments and Questions to the general part (I. to VII.)

Ad para 10.: We consider the proposed regional concentration limits and a funding cap for the individual projects/sub-programs in a certain amount as useful.

Ad para 13.: Procedures - The relationship between para 13 (e) and para 15 is not quite clear. Does it mean that TFC approval per project is not required in the case where a single MDB implement the program or sub-program?

Ad para 18./19.: Reporting and Monitoring - We would prefer semi-annual reporting as long as the senior risk manager has not been recruited.**Specific comments and questions to the 4 proposals**

Proposal 1: Utility-Scale Renewable Energy:

We very much welcome support especially to private sector involvement in the development of the geothermal potential further (we suggest to reconsider the title of the program as it is somewhat misleading: it is in fact at least for the foreseeable future a proposal targeting geothermal projects only). From our experience mitigation of exploration and drilling risk is crucial in crowding in more private sector investment, even if that means that a substantial amount of grant funding is necessary.

With respect to the proposed program, we have the following questions/comments

Target countries: Given the fact that Mexico is in the forefront of developing its geothermal potential, we are wondering, if further support is needed? Given the huge and completely unused potential in Chile we would rather suggest to focus on this country . With respect to all the proposed countries it would also be helpful to understand, if the necessary regulatory framework is in place to support private investments in geothermal resources?

Financial instruments: We consider the proposed financial instruments as too broad and some of the instruments quite risky especially given the absence of the ERM framework and an appropriate risk management in place. We would therefore strongly prefer, if the proposed instruments could be reduced and refocused to address the key risks:

a) Direct financial support to private concession holder
- Loans convertible to grants in case of drilling failures: This can be an opportunity to save grants, but also increases the requirements for the financial risk management. In addition, as experience shows, the difficult determination of "drilling failures" has to be addressed properly.
- Maybe grants, which have to be repaid in case of success, might be easier to manage.
- Equity or quasi-equity would only be acceptable under a professional external fund management.

b) First loss guarantees to commercial banks: we doubt that there will be a larger scale demand for such a product.
Since Equity or quasi-equity and first loss guarantees involve a high level of risk for the CTF, we suggest to defer a decision on this until a sound ERM framework is in place.

c) Exploration Risk Insurance is in our view an option worthwhile exploring further and that applies also to structures such as the GRMF, which both focus on the mitigation of exploration and drilling risks.

Proposal 2: Risk Capital to address Regulatory Risks for Renewable Energy

GER agrees that regulatory risks are indeed an issue for private developers of renewable energy projects. We do, however, see a number of fundamental challenges with this proposal.

High risk of moral hazard (para 49.): We consider it crucial that the governments of the respective countries provide some kind of guarantee against the change in regulatory conditions. If such a guarantee is not in place the risk of moral hazard becomes prohibitively high.

Target countries: We consider some of the target countries proposed such as Nigeria and Ukraine especially difficult with respect to regulatory and governance issues (see e.g. the regulatory risk in the IP of Ukraine is set "high"). Protecting investors against regulatory risks might set inverse incentives to the respective governments, once it is known that a project has protection in place against changes in the regulatory environment.

The structure of the financial product is highly complex and risky, since it involves e.g. unfunded risk mitigation guarantees etc. and ex-post subsidies which might be drawn over the whole lifetime of a project. Again, we would suggest to further develop the risk management structures of the CTF to manage the risks involved in such a project/program.

Considering this program for approval would require that the CTF will only cover part of the fees, if the project wants to obtain cover from MIGA or another PRI company against the risk of the government/public off-taker "Non-honouring its sovereign obligation".

Proposal 3: Renewable Energy Mini-Grids and Distributed Power Generation

Given the substantial efforts made under the SE4All Initiative to achieve universal Access to modern and sustainable energy, GER very much welcomes the opportunity to explore the approach of this proposal further.

We encourage the MDB's to clearly emphasize the potentially huge contribution to directly tackling poverty.

GER has the following questions/comments:

In our experience, , when developing a sustainable project pipeline for mini-grids, finding not only project developers, but especially long-term operators is often far more challenging then funding. Could you therefore, pls elaborate further to what degree a project pipeline is already available?
Are diesel generator sets and/or storages designated as backup capacity? More details about balancing concepts could be of interest (maybe this will be provided with each concrete project/sub-program?).

Financial instruments: We would prefer to limit the financial products to loans given the specific requirements on risk management for equity and mezzanine products (reference is made to the ERM discussion).

An appropriate level of concessionality needs to be defined given e.g. the high feed-in tariffs existing e.g. in the Philippines to avoid market distortions.

para 93, F. Funding: Given the indicative funding for phase I of the program, pls. provide indicative cost per MW and/or kWh for the proposed program.

Proposal 4: Climate Finance Equity Investments:

GER suggests that the current proposal still has to be developed further and we would require a higher level of detail in order to make an informed decision on such a program. In addition the financial instruments proposed involve a high level of risk, which, again, cannot be handled properly with the current financial risk management.

However, if this proposal should be pursued, we would recommend to pay close attention to the following issues:

Fund management: Given the specific risks of such a product and the close attention that is necessary to prepare and monitor every single project, GER considers it of crucial importance to have a dedicated and experienced fund manager in place for any such program, if to be approved under the CTF. In our experience it will be necessary that such a fund manager is well connected in the target market and should also have a strong focus on developing the necessary project pipeline.

Market Demand: Given the fact that there are quite a number of private equity funds already existing, it would need to be clarified, if sufficient market demand is available for yet another program/fund? In this context it could also be helpful, if MDBs (especially AFDB and ADB having invested in 20/40

PEFs) could elaborate on their experience with respect to demand, leverage and speed of disbursements.

If such an instrument should be implemented at all, the authors of the DPSP might want to consider investing in existing private equity funds such as the Global Climate Partnerships Fund (GCPF). This fund is already in place, with a professional fund management and risk management in order to minimize potential risks for the CTF.

September 27, 2013

Comments from United Kingdom on CTF Dedicated Private Sector Programs - draft document for comment

Patricia

The UK would like to thank the Admin Unit and MDBs for their efforts in preparing the Dedicated Private Sector Proposal and welcomes the ideas presented. We want to see greater private sector engagement and co-financing in the CTF and believe that the Dedicated Private Sector Program is a key way to achieve this. To ensure these sub-program proposals offer excellent value-for-money, we have some comments and questions to guide further development. These are outlined below:

DPSP Implementation

- Phase 1 and phase 2 sound like sequential stages whereas it is clear in the paper that any additional funding would allow phase 2 to move forward in parallel to phase 1. Are there other names for this distinction that could be less confusing? For example, "countries supported with existing CTF pledges" and "countries supported with additional contributions".
- Rightly, countries have been selected where there is potential for fast disbursement. Given the focus on fast disbursement, how will the CIF AU and MDBs ensure good quality projects are presented to the TFC for our consideration?
- We want to see a strong learning component built into the DPSP, with an emphasis on results. How will MDBs ensure that the lessons learnt from DPSP sub-programs are shared both within the sub-program but also externally? How will these lessons be disseminated across the private sector and local public actors to ensure replication effects and sustainability of the program?
- Across all four proposals, we need to be confident that proposed investments are not duplicating efforts being made under existing CTF and SREP country investment plans and other bilateral and multilateral investments that are being made in similar sectors?
- Across all four proposals the focus on the private sector and the way that projects / instruments will be designed specifically to encourage private sector investment needs to be strengthened.
- Throughout the paper the risks are discussed, but not the returns. It is essential that the risk / return balance is clear in the proposals as this will drive private sector engagement while avoiding the risk of over-subsidy.

Utility Scale Renewable Energy

We welcome the wide range of instruments that have been listed for use under the **utility scale renewable energy** proposal. We encourage this list to be kept as wide as possible so that the implementing MDBs have flexibility and opportunity for comparative learning. We would also encourage an assessment that allows us to learn as the underlying projects are implemented to be twinned with this proposal. From this the risks will be better understood – increasing the chance of replication and reducing the requirement for concessional finance in the future. We have concerns that the proposal might not be truly replicable, without the continuing use of concessional finance.

- The Utility Scale RE proposal aims to target finance at Chile, Mexico and Turkey. We're aware that there is already strong development support being provided to geothermal in Chile and Mexico. Any project proposals will need to demonstrate that finance provided to well drilling is truly additional to activities already being undertaken in these countries.
- We would like to understand whether the infrastructure costs and issues over land rights that are associated with well drilling have been taken into consideration in the proposal. In addition, whether the availability of trained drilling professionals and rigs to conduct the drilling is known? These risks, if not mitigated could considerably slow down the implementation potential of this proposal.
- The proposal notes that there could be "exceptional circumstances where the private sector isn't willing to invest". This is a **dedicated** private sector program. With appropriately designed financial instruments there should be no circumstances where the private sector will not invest, therefore the UK would be extremely reluctant to approve any project where the private sector isn't willing to invest early on. Please can you provide some illustrative examples to show how the drilling will be financed so that the private sector shares the risk?
- We would like to see further analysis to show the rewards that are generally available to geothermal projects from the sale of electricity (and potentially heat) to understand the incentives for investors once the resource has been proven.
- Geothermal sites can differ significantly, therefore the replicability of this program could be challenging, especially as only 2-5 fields will be addressed by the proposal. Are there any plans for an assessment of this intervention as the projects are financed including lesson sharing so that as much can be learnt from the individual drill sites as possible?
- The proposal states that resource validation takes three years – if this is the case, how does this proposal aim to meet the speed of disbursement criteria?

Risk Capital to address regulatory risk for renewable energy

Regulatory risk is an area that the UK has identified as essential to increasing the willingness of private financiers to invest in the renewable energy sector; therefore we are pleased to see that this has been included. We will be very interested in the detail of the policy risk mitigation projects / instruments, especially to ensure that: a) they are not used to provide additional risk protection for existing CTF co-financed projects; b) the countries chosen are appropriate, with a strong pipeline of projects that could be triggered by this intervention; and c) incentives are appropriately aligned and government relationships are leveraged, reducing the risk of moral hazard as far as possible.

- We would like to see more information to show how interests will be aligned to reduce moral hazard risks (i.e. lack of incentive to guard against risk where one is protected from its consequences), together with illustrative examples of potential structures. The moral hazard risk must be addressed up front to reduce the transaction costs of negotiating this on a project by project basis.
- We would like evidence to show that the MDBs that are proposing this have the skills and presence on the ground to understand the policy risk in the selected countries so CTF finance isn't deployed where policy reform is inevitable. In addition, we would like to see evidence that the risks are actually being overestimated by the private sector.
- Policies that are at most risk of reversal are likely to be those that are most expensive. How will the instruments be designed so that this support is sustainable, and not just a pot of money that will be called upon should governments renege?
- We would like to see evidence that there is a pipeline of projects and a private sector that could be triggered into action by this instrument in the chosen countries. We otherwise risk tying up CTF finance that could be put to better use elsewhere.
- In the partial risk guarantee proposal, what happens if the guarantee isn't called on and how long does our money have to sit there as a guarantee?

Renewable energy mini-grids and distributed power generation

Patient capital and concessional finance provided for experimentation with **mini-grid** business models has the potential to leverage private finance, and a sector-wide approach has the potential to scale up learning, reduce costs and build the supply chain. In order for these benefits to be realized, we would encourage a wider, more regional approach than the one presented in phase 1. This proposal will also see MDBs entering into environments where smaller transactions are made, as this is fairly novel we see this as a good opportunity to learn lessons for future climate finance, therefore we would encourage some form of knowledge sharing platform and assessments that allow us to learn as the underlying projects are implemented in this sub-program.

- Investments may not look particularly cost-effective due to modest GHG emission reductions associated with mini-grid projects. To mitigate this we would encourage projects to not only focus on households, but for the mini-grids to also connect to productive uses. MWh generated or saved could be included as a core indicator in the results framework to inspire this.
- We would like to see a much clearer strategy to show how replication and scale up could occur and how the projects financed will bring in private sector investment and reduce future costs (technology specific costs or costs related to risks and lack of information /experience).
- We would also like to understand how the business models trialed under the proposal are going to be different from mini-grid business models that are currently being demonstrated to ensure that lessons are being learnt and the investments are truly additional. In addition, evidence is needed to show that the

electricity that is eventually going to be provided will be affordable as this is a key factor in the replicability of this sort of model.

Climate finance equity investments

The UK is very supportive of the use of more innovative instruments other than debt therefore welcomes the **climate finance equity investments** proposal. Especially as this builds strongly upon lessons learnt from the private sector within the CTF, through the use of subordination in the investment structure as a way to catalyse the private sector. However more information is required so that we can understand what position the CTF finance would take in each of the three proposals. The UK also feels that as these proposals are quite different from one another, the mezzanine proposal could be included separately. We also need to be sure that CTF finance is truly <u>additional</u> and isn't crowding out the private sector. MDBs must justify why CTF finance is warranted especially in the case where significant donor finance is already a part of these proposed financial structures. MDBs must also justify why the funds will be able to make better investment decisions than the private sector normally would in order to show credible results and realise risk reductions.

- If the CTF invests in CP3, our preference is for a mezzanine structure. However we are concerned that providing concessional finance alongside CP3 before first close could send a negative signal that could undermine CP3's most important objective – to show that private equity climate investments have good financial risk and returns. How will this risk be mitigated?
- The proposal claims that a mezzanine structure that could co-invest alongside CP3 could increase the overall additionality of CP3 by encouraging the General Partner to invest a larger proportion of their equity investments in more marginal projects in harder countries than otherwise would be the case. We would like to see clear evidence that this is the case.
- More information on the terms and conditions of the funds is required, including the fees that are charged in order to evaluate the value-for-money of this proposal.

Please feel free to contact me with any questions on the above.

Have a good weekend.

Sam Balch

International Climate Fund (ICF)
International Climate Change

September 27, 2013

Comments from Canada on CTF Dedicated Private Sector Programs – draft document for comment

Dear Patricia,

We would like to thank the CIF Admin Unit, MDBs and Trustee for their ongoing efforts in refining the DPSP proposal for consideration. Canada continues to support the idea of having a CTF private sector set-aside to help the CTF mobilize greater private sector investment.

We would like to make some general points on the proposed approach, as follows:

- Regarding the important 'governance' and 'country ownership' considerations, we appreciate the additional information provided on how these could be addressed in the DPSP. Regarding the former, we reiterate our strong preference for all project/sub-project approvals to be made by the Trust Fund Committee, even where, as noted in paragraph 15 of the document, a program/sub-program is implemented by a single MDB. One previously stated reason of the proposed delegation is speed of programming; to keep the approval process streamlined for the DPSP, we recommend that project/sub-project Trucst Fund Committee approvals be sought on a non-objection basis by e-mail. As for country ownership, we would appreciate clarification of how the CTF country ownership principles (paragraph 12c) would be applied in practice.
- We agree with the UK and Germany that the DPSP programs/sub-programs should be closely monitored, and we would prefer having a minimum of at least semi-annual reporting.
- We emphasize the need for the DPSP to focus on innovative programming, and not innovative financial mechanisms. In addition to this general preference, given the fact that the CIFs do not yet have the necessary financial risk management systems in place (i.e., ERM framework, Senior Risk Management Officer), it is premature to discuss any programming that would require the use of complex financial products.
- The proposal for the Committee's consideration and decision in October should be limited to existing resources and existing pilot countries. As and when new contributions are made, a separate decision for the use of those funds should be proposed for the Trust Fund Committee's consideration.
- We agree that given the current allocation of USD 150 million, prioritization of sub-programs is warranted, as are country caps, as proposed in principle in paragraph 10 (e.g., no more than 30 percent of the DPSP to a single country, plus a regional concentration limit).

As for the request for direction regarding the Committee's prioritization of the sub-programs proposed for consideration, Canada notes the following:

- Given the funds available, and for sufficient scale for impact, Canada's preference is that two proposals be prioritized. In this regard, Canada proposes Options 1 (Utility-Scale Renewable Energy) and Option 3 (Renewable Energy Mini-Grids and Distributed Power Generation).
- For Option 1 (Utility-Scale Renewable Energy), we would like to see the focus immediately expanded beyond geothermal energy to include concentrated solar power and biomass energy. For the October paper, we request that the proposal be elaborated upon by addressing the gap linking the concept to its implementation. For example, in the case of geothermal, if the demonstration cases prove to be viable, there is an assumption

that the described financing would be sufficient to achieve scale and financial sustainability. However, the business case does not sufficiently outline the types of revenues that would make this type of investment attractive to commercial investors. In addition, the paper notes public finance has been the most reliable source of support for the "up front" costs of these types of projects. We would welcome further work to substantiate the case for CTF support for geothermal energy.

- For Option 3 (Renewable Energy Mini-Grids and Distributed Power Generation), we note that this proposal would be a welcome addition to a number of worthwhile and related initiatives in this area, and are pleased to see the important potential for co-benefits from this proposal. We note that one aspect common to most initiatives is the issue of scale. While focusing on financing mini grids in one geographical region is valid, do these projects adequately decrease emissions and are they structured in a manner that would make them interesting to investors? One potential approach to address these concerns could be "bundling" packages of appropriate mini-grids and distributed power generation projects, which would attract investment and potentially address climate change in a more significant manner. We look forward to these questions being addressed in the October paper.

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We look forward to receiving the final document for consideration, and look forward to having the above-mentioned considerations addressed in that paper along with those made by Germany and the UK.

Kind regards,

Michelle Kaminski

September 27, 2013

Comments from Australia on CTF Dedicated Private Sector Programs – draft document for comment

Dear CIF AU

Thank you for the opportunity to see an advanced draft of the proposed private sector program. We appreciate the hard work from the CIF AU and MDBs to develop this before the October meeting.

We offer the following comments for greater clarification:

Sub program 1
- The utility scale geothermal program seems to present a compelling case for bridging a gap in global geothermal development in alleviating upstream resource risks and financial burdens. It is well targeted and well planned to address resource risk.
- the program is ambitious in the amount of geothermal power generation it is seeking to add globally (4 GW) and presents flexibility and tailored approaches to enable successful financing of geothermal projects.
- For the three financial instruments detailed on page 18, it would be useful to know under which circumstances they would be employed. Are there particular examples of situations when one instrument would be used compared to another?
- timeframes for resource validation seem reasonable although exploration workflow will need to be carefully conducted to ensure time frames stay on track.
- interested in knowing why the estimated cost for Vanuatu (table page 23) is relatively high compared to others. Is there something specific to the resource geology?
- what implications will this program have on existing private sector geothermal projects eg Indonesia? Is it complementary or addresses a different barrier?

Sub program 2
- moral hazard seems to present a significant risk to this program. More detail would be appreciated on how the MDBs will structure the alignment of interests to address this.
- maybe a question for the trustee - since funding for this program will only be contingent finance, is there any difference between how this funding will be treated distinct from funding for the other sub programs? Is there a way of not locking up these funds but still providing this funding as contingency?

Sub program 3
- this program presents a strong case for supporting economic growth through enhancing energy access and security, particularly for Australia's region of interest.

Sub program 4
- considering the indirect nature of CTF investments through leveraging mechanisms, more exploration around attribution of results would be appreciated here.

We look forward to considering the revised proposal for the upcoming CIF meeting.

Regards
John Anakotta
Policy Manager | International Development Policy & Financing Branch | AusAID

September 30, 2013

Comments from France on CTF Dedicated Private Sector Programs - draft document for comment

Dear Patricia,

France welcomes the work that has been done so far on describing those initiatives. We consider that the initiatives 1 and 2 seem very relevant, legitimate, and are addressing relevant market failures, even if we still have some questions. We are looking forward the next version of this paper to better understand the potential for initiatives 3 and 4.

1. **Utility scale renewable energy.** France fully share the concern that geothermal exploration phase is both very capitalistic and risky. Mechanisms helping to overcome this phase are indeed necessary and we welcome this idea to mobilize CTF on tackling this issue. The paper indicates that many countries such as Nicaragua, Chile, Indonesia and Turkey have however chosen to use a public institution for the exploration phase (it is also the case in Kenya). Could you explain how such a mechanism targeting private sector would fit in those schemes? Wouldn't it generate additional transaction costs? The paper offers several financial instruments; could you elaborate on advantages / disadvantages of those instruments? Do we have any feedback from the facility implemented by KfW?

2. **Risk capital to address regulatory risk for renewable project.** The idea is very interesting but the paper is lacking a precise description of the financial instruments to be mobilized. How would the CTF funding be structured? How would the necessary amount be estimated? How does one would assess the amount needed when a FiT drops?

3. **Renewable energy mini -grids and distributed power generator.** Could you elaborate on the difference between financing a renewable energy generator, commit to its operations and operate a mini-network. It is understood that the project will address the financing of RE projects of small capacity which actually represents a huge potential still untapped and very difficult to finance. However the introduction of private actor to operate a complete mini-network (production, distribution and customer management) is questionable. Could you please elaborate on the business model of those operations (difficulty in collecting payments...)?

4. **Climate finance equity investments.** Very few concrete details are given for this initiative. The description is extremely financial. For AfDB: What are examples of funds that already exist and could be illustrate the concept of PEFs? Could you elaborate on sectors to be covered? How would you obtain a x73 leveraging effect? What would be the targeted countries? For AsDB: What are the goals of climate CP3? What would be the targeted countries? For both: How would you track emission reductions?

Eventually, like our Spanish colleagues, we also underline the importance of ensuring additionality of the DPSP, so that it does not duplicate work done by other programs.

Best regards,

Cécile Pot

September 30, 2013

Comments from United States on CTF Dedicated Private Sector Programs - draft document for comment

Clean Technology Fund Private Sector Proposal -- U.S. comments

We thank the MDBs and CIF Admin Unit for the work that went into refining these proposals. We believe that there are several promising proposals in here that could have a substantial positive impact in terms of testing new business models and take a creative approach to particular technologies. We look forward to discussing the paper in more detail.

Process
U.S. comments: We are comfortable with the approach outlined on country consultation and CTF approval processes.

Specific program proposals:
1) Focusing on scaling up geothermal energy globally by addressing drilling risks
U.S. comments: The strength of this proposal is that it is aiming to bring funding at a critical stage in the process and to try to crowd in private insurance for this sector. It would be helpful to explore in more detail the threshold question of why a dedicated fund is needed given that 6 CTF countries and three SREP countries have the option to use their CIF resources toward geothermal. The paper also cites 2 previous GEF projects which tried to address drilling risk, neither of which were successful. It would be helpful to know what lessons were learned.

2) Risk Capital to Address regulatory risk for renewable energy
U.S. comment: The proposal does not articulate clearly enough what criteria would be used for determining which countries would be selected for such a program and what role the MDBs could play in strengthening the regulatory framework or helping countries to avoid design flaws that became apparent in other countries' subsidy regimes.

3) Renewable energy mini-grids and distributed power generation
U.S. comment: The strength of this proposal is that it would address an overlooked area which does have the potential to be transformative. It could also help to promote the development of technologies and business models that can be replicated more broadly. The question that we would like to understand better is why no CTF country has focused on distributed power in country program proposals. It seems that such investments would need to be developed in close cooperation with governments to ensure that local business environment is supportive of such new approaches

4) Equity investments in planned private equity funds.
U.S. comment: The proposal does not adequately articulated what value the CTF contribution would bring in terms of testing new models. It needs to be better articulated how the CTF contribution would be differentiated from the other official finance in such funds.

Abigail Demopulos
US Treasury

September 30, 2013

Comments from Spain on CTF Dedicated Private Sector Programs – draft document for comment

Dear Patricia,

Thank you very much, first of all, to the Cif AU and the MDBs for their efforts in preparing this comprehensive DPSP proposal and sorry for the delay in sending our comments. Spain supports the program proposed and wants to share with you some ideas.

We value specially the wide range of financial instruments planned to be used in all of the four proposals. It is very important to emphasize the role of the CTF in terms of being innovative and making efforts to test new approaches and generate as many lessons learned as possible, so that this experience can feed the GCF in the future.

We also want to emphasize the importance of involving all the relevant stakeholders at the very beginning of the project/program designing process. That has been taken into account in the development of the four proposals, something we appreciate.

We welcome the flexibility that the framework provides when there is the necessity of reallocating funds between MDBs based on project readiness.
We have an additional comment regarding rapid disbursement. It is obviously necessary to ensure a healthy use of CTF funds and an agile disbursement. However, that should not lead to a situation where more difficult projects that require a more costly preparation in terms of both efforts and time, is taken out of the pipeline. Of course we rely on the expertise of the MDBs at this point, it is only to emphasize how important this factor is.

We have some concerns regarding the funding. We understand the necessity of making some kind of "overprogramming", so that there are no delays when new funds become available. However, a programming that implies 325-350M$ is too high in our view and could drive to unrealistic expectations for recipient countries. Maybe the CifAU could make some kind of research through CTF donors to have an idea about the appetite for allocating new funds in this program in the medium term.

We want finally to point out the importance of ensuring additionallity of the DPSP, so that it does not duplicate work done by other programs.

Best regards

Aize Azqueta Quemada
SG Instituciones Financieras Multilaterales / Deputy Directorate for Multilateral Financial Institutions
Ministerio de Economía y Competitividad / Ministry of Economy and Competitiveness, SPAIN

October 1, 2013

Comments from Brazil on CTF Dedicated Private Sector Programs - draft document for comment

Dear colleagues,

We would like to thank the CIF Administrative Unit and the MDBs for preparing this draft on a proposal for the CTF Dedicated Private Sector Programs. We look forward for the final version of this document, presenting in more detail each program.

First, in order to frame the proposal more clearly in line with the decisions taken by the Trust Fund Committee, we are of the view that the *programs* (or *subprograms*, as expressed in the decision) should be developed with a focus on current CTF pilot countries, utilizing USD 150 million of dedicated existing CTF resources. The draft document proposes programs that would need USD 325 million in funding just for the 1st phase, with significant additional resources expected for a 2^{nd} phase. In order for the TFC to approve any set of programs, they would need to fit in the approved envelope of funds, and any decision on the extension of these programs will be taken only subsentely, when and if additional resources become available. This extension would be a totally separate decision, and the viability of the programs considered for the current envelope of USD 150 million should be clearly demonstrated.

We also would like to see further development of proposals for programs that can be applied at a global scale, to be financed if new contributions occur. These global programs should not be considered as a « phase 2 » of any program to be approved by the TFC in its next meeting. In fact, we should learn from the present experience in order to improve and the development of scaled up programs dedicated to the private sector.

The main features of an improved process for the design of global private sector programs should be, in our view :

- **Improve the engagement with country focal points**. The programs should not be developed and proposed solely by the MDBs. There should be a shared effort to identify priority areas and understand the potential of the CTF to promote transformational investments.
- **A more transparent, open, transparent and competitive process**. The TFC should not receive for consideration only proposal “ready-made” by the MDBs. Concepts and ideas for programs should be sought after in the private sector and civil society. There is a huge potential for innovative proposals from outside the “MDBs comfort zone”, and we should take advantage of it. Indeed we would welcome that non-traditional clients of MDBs´ private sector arms could participate in this process, moving away from business as usual. We should encourage competition for access to CTF financing, with a view to improve the quality of proposals and create a transparent and more efficient process of resource allocation. Proposals from the private sector should be received and analyzed based on objective criteria, and concepts should not be “narrowed-down” before the TFC has an opportunity to consider them.

Best regards,

Artur Cardoso de Lacerda
Ministry of Finance of Brazil

CIF Administrative Unit
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Comments from TFC Members on the Dedicated Private Sector Programs- draft document and responses

1/ Canada

We would like to thank the CIF Admin Unit, MDBs and Trustee for their ongoing efforts in refining the DPSP proposal for consideration. Canada continues to support the idea of having a CTF private sector set-aside to help the CTF mobilize greater private sector investment.

We would like to make some general points on the proposed approach, as follows:

- Regarding the important 'governance' and 'country ownership' considerations, we appreciate the additional information provided on how these could be addressed in the DPSP. Regarding the former, we reiterate our strong preference for all project/sub-project approvals to be made by the Trust Fund Committee, even where, as noted in paragraph 15 of the document, a program/sub-program is implemented by a single MDB. Para 13 (e) explicitly says "the project/sub-program will be submitted to the Trust Fund Committee for CTF funding approval." Furthermore, the provisions for single MDB implementation follow current practice as noted in the footnote to para 15. One previously stated reason of the proposed delegation is speed of programming; to keep the approval process streamlined for the DPSP, we recommend that project/sub-project Trucst Fund Committee approvals be sought on a non-objection basis by e-mail. As for country ownership, we would appreciate clarification of how the CTF country ownership principles (paragraph 12c) would be applied in practice. This is ensured through consistency with the country assistance strategy that is agreed between the MDB and the country authorities in the first instance, and for specific projects and programs, "consultations and engagement by MDBs with the recipient country stakeholders during the design of projects/sub-programs concepts under the programs" as indicated in para 12 (d).
- We agree with the UK and Germany that the DPSP programs/sub-programs should be closely monitored, and we would prefer having a minimum of at least semi-annual reporting. Current practice as applies to all CTF interventions is for annual reporting.
- We emphasize the need for the DPSP to focus on innovative programming, and not innovative financial mechanisms. In addition to this general preference, given the fact that the CIFs do not yet have the necessary financial risk management systems in place (i.e., ERM framework, Senior Risk Management Officer), it is premature to discuss any programming that would require the use of complex financial products. The proposals provided contain a range of modalities and mechanisms as was requested by the TFC Committee last May. The TFC is invited to give guidance on the type of funding modalities they would like to see, but there has been an effort on the part of the MDBs to propose both innovative programming and innovatice financing mechanism. The future ERM will better equip the CTF to monitor this type of financing. .
- The proposal for the Committee's consideration and decision in October should be limited to existing resources and existing pilot countries. As and when new contributions are made, a separate decision for the use of those funds should be proposed for the Trust Fund Committee's consideration. The paper provides an indication of the resources that could be absorbed by the

different programs given MDB appreciation of underlying country circumstances. The TFC is invited to make this stipulation explicit in its review and discussion of the document

- We agree that given the current allocation of USD 150 million, prioritization of sub-programs is warranted, as are country caps, as proposed in principle in paragraph 10 (e.g., no more than 30 percent of the DPSP to a single country, plus a regional concentration limit).

As for the request for direction regarding the Committee's prioritization of the sub-programs proposed for consideration, Canada notes the following:

- Given the funds available, and for sufficient scale for impact, Canada's preference is that two proposals be prioritized. In this regard, Canada proposes Options 1 (Utility-Scale Renewable Energy) and Option 3 (Renewable Energy Mini-Grids and Distributed Power Generation). Noted.

2/ France

France welcomes the work that has been done so far on describing those initiatives. We consider that the initiatives 1 and 2 seem very relevant, legitimate, and are addressing relevant market failures, even if we still have some questions. We are looking forward the next version of this paper to better understand the potential for initiatives 3 and 4.

Eventually, like our Spanish colleagues, we also underline the importance of ensuring additionality of the DPSP, so that it does not duplicate work done by other programs.

3/ Germany

General Comments and Questions

We appreciate the efforts made in elaborating the DPSP proposal in further detail and in presenting 4 distinct sub-programs for further consideration.

We especially welcome that governance and ownership issues which were discussed during the last TCF meeting have been addressed in the revised paper.

In general terms, GER continues to be supportive to the establishment of private sector programs under the CTF. As we noted that the proposed programs involve a very broad variety of sometimes complex and risky financial instruments, we would like to reiterate the importance of applying certain basic principles to the potential implementation of any of the sub-programs under the DPSP: The proposals encompass a wide range of modalities and mechanisms to enable the TFC to decide which ones they feel are worthy of support. Further details will be developed for the selected proposals once guidance has been received from the TFC and once funding envelopes have been allocated.

- A long term investment perspective should be adopted with a view to ensure sustainability and avoid crowding out/market distortions; All MDB programs put forward subscribe to this objective.
- To ensure the effective supervision and control of CTF portfolio risk, all DPSP sub-programs should feed into the consolidated financial risk management system of the CTF (yet to be established); Noted.
- In the absence of a well defined ERM framework financial products shouldn’t be too complex in nature in order to keep the financial risk involved manageable. Noted; it is hoped that the TFC selection of proposals will provide guidance as to the acceptable level of complexity tolerated.

- Investments in broader programs should be managed by a professional fund manager against recognized benchmarks for asset classes and overall investment returns managed across the portfolio; in general, MDBs employ this model for their investments via funds.
- All DPSP sub-programs should be closely monitored and reported upon on at least a semi-annual and preferably on a quarterly basis; This is different from current practice for private sector programs/projects under the CTF which require reporting on an annual basis.
- All DPSP investments should be fully in line with CTF investment criteria, all sub-programs and projects should be evaluated and monitored accordingly. All activities under this proposal will follow CTF principles and objectives, as outlined in paras. 5-9

Given the funds currently allocated for the DPSP (USD 150 million), we would appreciate to have the four proposals prioritized for the selection of maximum 3 proposals, which could then be further developed. Our preference (as can be deducted from the specific comments below) is with program 1 and 3, followed with some caution by program 2. We have deliberately chosen not to prioritize the proposals, given the side range of mechanisms and modalities embodied in them. We request the TFC to select one, two, three or all four proposals for support based on TFC member priorities and desires, and to allocate funding to them so that the MDBs can develop detailed programs and projects to fit the available funding.

We would also like to point out - already at this early commenting stage - that we understand any sort of endorsement of the proposal to be limited to phase 1 (existing resources in existing pilot countries). Expansion of activities in subsequent phases in our understanding requires approval by the TFC. Phase 2 is delineated merely to provide an indication of demand and potential uptake in other countries or beyond the limited envelope of Phase 1.

Specific Comments and Questions to the general part (I. to VII.)

Ad para 10.: We consider the proposed regional concentration limits and a funding cap for the individual projects/sub-programs in a certain amount as useful. Noted.

Ad para 13.: Procedures - The relationship between para 13 (e) and para 15 is not quite clear. Does it mean that TFC approval per project is not required in the case where a single MDB implement the program or sub-program? Para 15 is consistent with current procedures.

Ad para 18./19.: Reporting and Monitoring - We would prefer semi-annual reporting as long as the senior risk manager has not been recruited. Please note that this is a departure from current practice where annual reporting is provided for private sector projects.

4/ Spain

Thank you very much, first of all, to the Cif AU and the MDBs for their efforts in preparing this comprehensive DPSP proposal and sorry for the delay in sending our comments. Spain supports the program proposed and wants to share with you some ideas.

We value specially the wide range of financial instruments planned to be used in all of the four proposals. It is very important to emphasize the role of the CTF in terms of being innovative and making efforts to test new approaches and generate as many lessons learned as possible, so that this experience can feed the

GCF in the future. This is why we included proposals that encompass a wide range of modalities and mechanisms.

We also want to emphasize the importance of involving all the relevant stakeholders at the very beginning of the project/program designing process. That has been taken into account in the development of the four proposals, something we appreciate.

We welcome the flexibility that the framework provides when there is the necessity of reallocating funds between MDBs based on project readiness.
We have an additional comment regarding rapid disbursement. It is obviously necessary to ensure a healthy use of CTF funds and an agile disbursement. However, that should not lead to a situation where more difficult projects that require a more costly preparation in terms of both efforts and time, is taken out of the pipeline. Of course we rely on the expertise of the MDBs at this point, it is only to emphasize how important this factor is. Noted.

We have some concerns regarding the funding. We understand the necessity of making some kind of "overprogramming", so that there are no delays when new funds become available. However, a programming that implies 325-350M$ is too high in our view and could drive to unrealistic expectations for recipient countries. Maybe the CifAU could make some kind of research through CTF donors to have an idea about the appetite for allocating new funds in this program in the medium term. The phasing provided in the proposals is designed to allow implementation of the proposals based on resource availability, The broader envelopes are provided to enable an appreciation of demand and potential uptake of the proposals within and beyond the CTF pilot countries. Detailed proposals will be developed to fit the resource envelope that is allocated.

We want finally to point out the importance of ensuring additionallity of the DPSP, so that it does not duplicate work done by other programs.

5/ UK

The UK would like to thank the Admin Unit and MDBs for their efforts in preparing the Dedicated Private Sector Proposal and welcomes the ideas presented. We want to see greater private sector engagement and co-financing in the CTF and believe that the Dedicated Private Sector Program is a key way to achieve this. To ensure these sub-program proposals offer excellent value-for-money, we have some comments and questions to guide further development. These are outlined below:

DPSP Implementation

- Phase 1 and phase 2 sound like sequential stages whereas it is clear in the paper that any additional funding would allow phase 2 to move forward in parallel to phase 1. Are there other names for this distinction that could be less confusing? For example, "countries supported with existing CTF pledges" and "countries supported with additional contributions". As the paper explicitly indicates (para 2), Phase 1 is confined to the existing resource envelope of $150 million; Phase 2 potential is indicated in the proposals to illustrate potential demand and uptake should additional funding be available and allocated to the program.
- Rightly, countries have been selected where there is potential for fast disbursement. Given the focus on fast disbursement, how will the CIF AU and MDBs ensure good quality projects are presented to the TFC for our consideration? In a first step, the MDBs will themselves agree on the projects that will be put forward to the TFC based on the funding envelope allocated. This

process will weed out "substandard" projects and ensure that resources are focused on the highest quality interventions.

- We want to see a strong learning component built into the DPSP, with an emphasis on results. How will MDBs ensure that the lessons learnt from DPSP sub-programs are shared both within the sub-program but also externally? How will these lessons be disseminated across the private sector and local public actors to ensure replication effects and sustainability of the program? As para. 7 indicates "Through the results framework, the MDBs would be expected to monitor achievement of results, promote accountability for resource use, and document and disseminate results and lessons learned."
- Across all four proposals, we need to be confident that proposed investments are not duplicating efforts being made under existing CTF and SREP country investment plans and other bilateral and multilateral investments that are being made in similar sectors?
- Across all four proposals the focus on the private sector and the way that projects / instruments will be designed specifically to encourage private sector investment needs to be strengthened. The proposals are focused on the private sector; once the TFC selects all or a subset of the proposals for support, each selected proposal will be further developed and fleshed out.
- Throughout the paper the risks are discussed, but not the returns. It is essential that the risk / return balance is clear in the proposals as this will drive private sector engagement while avoiding the risk of over-subsidy. The detailed proposals for selected initiatives will provide additional information on the risk-return tradeoffs.

6/ United States

Clean Technology Fund Private Sector Proposal -- U.S. comments

We thank the MDBs and CIF Admin Unit for the work that went into refining these proposals. We believe that there are several promising proposals in here that could have a substantial positive impact in terms of testing new business models and take a creative approach to particular technologies. We look forward to discussing the paper in more detail.

Process
U.S. comments: We are comfortable with the approach outlined on country consultation and CTF approval processes.

7/ Brazil

Dear colleagues,

We would like to thank the CIF Administrative Unit and the MDBs for preparing this draft on a proposal for the CTF Dedicated Private Sector Programs. We look forward for the final version of this document, presenting in more detail each program. Detailed programs will be developed for selected proposals, based on TFC endorsement and guidance.

First, in order to frame the proposal more clearly in line with the decisions taken by the Trust Fund Committee, we are of the view that the *programs* (or *subprograms*, as expressed in the decion) should be developed with a focus on current CTF pilot countries, utilizing USD 150 million of dedicated existing CTF resources. The draft document proposes programs that would need USD 325 million in funding just for the 1st phase, with siginificant additional resources expected for a 2nd phase. In order for the TFC to approve any set o programs, they would need to fit in the approved envelope of funds, and any decision on the extension of these programs will be taken only subsentely, when and if additional resources become available. This extension would be a totally separate decision, and the viability of the programs considered for the current envelope of USD 150 million should be clearly demonstrated. The proposal indicates that Phase 1 is confined to $150 million and CTF pilot countries (para. 2). It further indicates that demand greatly exceeds the available resource envelope, and so all four proposals cannot be piloted at the same time. The larger envelope is provided to demonstrate the additional demand and uptake that would be possible if additional resources were to be available, and/or if the proposals could be extended beyond the CTF pilot countries.

We also would like to see further development of proposals for programs that can be applied at a global scale, to be financed if new contributions occur. These global programs should not be considered as a « phase 2 » of any program to be approved by the TFC in its next meeting. In fact, we should learn from the present experience in order to improve and the development of scaled up programs dedicated to the private sector. The proposals present the activities that could be undertaken if additional resources were to be made available. If no additional funding is available, then Phase 2 would not be implemented.

The main features of an improved process for the design of global private sector programs should be, in our view :

- **Improve the engagement with country focal points**. The programs should not be developed and proposed solely by the MDBs. There should be a shared effort to identify priority areas and understand the potential of the CTF to promote transformational investments. We welcome proposals and ideas from the country focal points.
- **A more transparent, open, transparent and competitive process**. The TFC should not receive for consideration only proposal “ready-made” by the MDBs. Concepts and ideas for programs should be sought after in the private sector and civil society. There is a huge potential for innovative proposals from outside the “MDBs comfort zone”, and we should take advantage of it. Indeed we would welcome that non-traditional clients of MDBs´ private sector arms could participate in this process, moving away from business as usual. We should encourage competition for access to CTF financing, with a view to improve the quality of proposals and create a transparent and more efficient process of resource allocation. Proposals from the private sector should be received and analyzed based on objective criteria, and concepts should not be “narrowed-down” before the TFC has an opportunity to consider them. This is beyond the scope of the CIF Administrative Unit or indeed the MDBs, and we urge you to discuss these ideas with the TFC.